HSBC BANK CANADA
THIRD QUARTER 2012 INTERIM REPORT

- Profit for the quarter ended 30 September 2012 was $181m, a decrease of 10% compared with the same period in 2011. Profit for the nine months ended 30 September 2012 was $604m, an increase of 6% compared with the same period in 2011.

- Profit attributable to common shareholders was $162m for the quarter ended 30 September 2012, a decrease of 11% compared with the same period in 2011. Profit attributable to common shareholders was $550m for the nine months ended 30 September 2012, an increase of 7% compared with the same period in 2011.

- Return on average common equity was 15.8% for the quarter ended 30 September 2012 and 18.0% for the nine months ended 30 September 2012 compared with 18.9% for the same periods in 2011.

- The cost efficiency ratio improved to 44.8% for the quarter ended 30 September 2012 and 46.8% for the nine months ended 30 September 2012 compared with 48.7% and 51.1% respectively for the same periods in 2011.

- Total assets were $84.5bn at 30 September 2012 compared with $80.7bn at 30 September 2011.

- Total assets under administration decreased to $19bn at 30 September 2012 from $30bn at 30 September 2011 primarily due to the sale of the bank's full service retail brokerage business. Excluding the impact of this sale, total assets under administration increased by $2.5bn from 30 September 2011.

- Tier 1 capital ratio was 13.5% and the total capital ratio was 15.8% at 30 September 2012 compared with 13.4% and 16.0% respectively at 31 December 2011.

HSBC

Corporate Profile

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in Canada. With around 6,900 offices in over 80 countries and territories and assets of US$2,721bn at 30 September 2012, the HSBC Group is one of the world's largest banking and financial services organizations.

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DIVIDENDS AND DISTRIBUTION DATES:

Dividend record and payable dates for the bank's preferred shares for the remainder of 2012, subject to approval by the Board, are:

2012

Record Date	Payable Date
14 December	31 December

2013

Record Date	Payable Date
15 March	31 March
14 June	30 June
13 September	30 September
13 December	31 December

Distribution dates on our HSBC HaTS are 30 June and 31 December.

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Shareholder Information

Shareholder Information

PRINCIPAL ADDRESSES:

Vancouver:
HSBC Bank Canada
885 West Georgia Street
Vancouver, British Columbia
Canada V6C 3E9
Tel: (604) 685-1000
Fax: (604) 641-3098

Toronto:
HSBC Bank Canada
70 York Street
Toronto, Ontario
Canada M5J 1S9
Tel: (416) 868-8000
Fax: (416) 868-3800

MEDIA ENQUIRIES:

Vancouver (English)	(604) 641-2973
Toronto (English)	(416) 868-3878
Toronto (French)	(416) 868-8282

WEBSITE:
www.hsbc.ca

OTHER AVAILABLE INFORMATION:
The bank's continuous disclosure materials, including interim and annual filings, are available on the bank's website and on the Canadian Securities Administrators' web site at www.sedar.com.

HSBC BANK CANADA SECURITIES ARE LISTED ON THE TORONTO STOCK EXCHANGE:

HSBC Bank Canada
Class 1 Preferred Shares – Series C (HSB.PR.C)
Class 1 Preferred Shares – Series D (HSB.PR.D)
Class 1 Preferred Shares – Series E (HSB.PR.E)

TRANSFER AGENT AND REGISTRAR:

Computershare Investor Services Inc.
Shareholder Service Department
9th Floor, 100 University Avenue
Toronto, Ontario
Canada M5J 2Y1

Tel: 1 (800) 564-6253
Fax: 1 (866) 249-7775

SHAREHOLDER CONTACT:

For change of address, shareholders are requested to write to the bank's transfer agent, Computershare Investor Services Inc., at their mailing address.

Other shareholder inquiries may be directed to Shareholder Relations by writing to:

HSBC Bank Canada
Shareholder Relations – Finance Department
4th Floor
2910 Virtual Way
Vancouver, British Columbia
Canada V5M 0B2

Email: Shareholder_relations@hsbc.ca

Shareholder Relations:

Chris Young	(604) 642-4389
Harry Krentz	(604) 641-1013

Caution regarding forward-looking financial statements

This document may contain forward-looking information, including statements regarding the business and anticipated actions of HSBC Bank Canada. These statements can be identified by the fact that they do not pertain strictly to historical or current facts. Forward-looking statements often include words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes," and words and terms of similar substance in connection with discussions of future operating or financial performance. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, technological change, global capital market activity, changes in government monetary and economic policies, changes in prevailing interest rates, inflation levels and general economic conditions in geographic areas where HSBC Bank Canada operates. Canada is an extremely competitive banking environment and pressures on the bank's net interest margin may arise from actions taken by individual banks or other financial institutions acting alone. Varying economic conditions may also affect equity and foreign exchange markets, which could also have an impact on the bank's revenues. The factors disclosed above are not exhaustive and there could be other uncertainties and potential risk factors not considered here which may impact the bank's results and financial condition. Any forward-looking statements speak only as of the date of this document. The bank undertakes no obligation to, and expressly disclaims any obligation to, update or alter our forward-looking statements, whether as a result of new information, subsequent events or otherwise, except as required by law.

Management's Discussion and Analysis

Financial Highlights

(in $ millions, except where otherwise stated)	Quarter ended			Nine months ended	
	30 September 2012	30 September 2011	30 June 2012	**30 September 2012**	30 September 2011
For the period ($m)					
Profit before income tax expense	**246**	274	279	**817**	771
Net operating income before loan impairment charges and other credit risk provisions	**572**	653	614	**1,867**	1,860
Profit attributable to common shareholders	**162**	182	186	**550**	515
At period-end ($m)					
Shareholders' equity	**5,118**	4,933	5,080		
Core tier 1 capital [2]	**3,798**	3,497	3,737		
Risk weighted assets [1]	**36,818**	34,786	35,637		
Loan and advances to customers (net of impairment allowances)	**46,309**	43,697	46,126		
Customer accounts	**47,713**	45,500	47,097		
Capital ratios (%)					
Tier 1 ratio [1]	**13.5**	13.4	13.8		
Total capital ratio [1]	**15.8**	16.1	16.1		
Core tier 1 capital ratio [2]	**10.3**	10.1	10.5		
Performance ratios (%) [2]					
Return on average common equity	**15.8**	18.9	18.4	**18.0**	18.9
Post-tax return on average total assets	**0.77**	0.87	0.88	**0.89**	0.84
Post-tax return on average risk weighted assets	**1.8**	2.1	2.1	**2.0**	2.0
Credit coverage ratios (%)					
Loan impairment charges as a percentage of total operating income	**12.4**	9.6	9.6	**9.5**	7.6
Loan impairment charges as a percentage of average gross customer advances and acceptances	**0.6**	0.5	0.5	**0.5**	0.4
Total impairment allowances outstanding as a percentage of impaired loans and acceptances at the period end	**62.8**	71.8	70.7	**62.8**	71.8
Efficiency and revenue mix ratios (%) [2]					
Cost efficiency ratio	**44.8**	48.7	45.0	**46.8**	51.1
Adjusted cost efficiency ratio	**44.1**	50.4	44.8	**46.2**	51.5
As a percentage of total operating income:					
- net interest income	**62.4**	59.9	60.6	**60.3**	62.5
- net fee income	**27.4**	24.8	23.9	**23.9**	26.2
- net trading income	**8.4**	7.0	7.7	**7.2**	6.4
Financial ratios (%) [2]					
Ratio of customer advances to customer accounts	**97.1**	96.0	97.9		
Average total shareholders' equity to average total assets	**6.0**	5.7	5.9		
Total assets under administration ($m)					
Funds under management [3]	**18,097**	28,927	17,339		
Custodial accounts	**854**	1,033	949		
Total assets under administration	**18,951**	29,960	18,288		

1 *Calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada ("OSFI") in accordance with the Basel II capital adequacy framework.*

2 *These are non-IFRS amounts or non-IFRS measures. Please refer to the discussion outlining the use of non-IFRS measures in the "Basis of preparation of financial information" section of this document.*

3 *The comparative figure for the quarter ended 30 September 2011 includes funds managed in the full service retail brokerage business which was sold on 1 January 2012 of $13.5bn.*

Management's Discussion and Analysis (continued)

Basis of preparation of financial information

HSBC Bank Canada ("the bank", "we", "our") is an indirectly wholly owned subsidiary of HSBC Holdings plc ("HSBC Holdings"). Throughout the Management's Discussion and Analysis ("MD&A"), the HSBC Holdings Group is defined as the "HSBC Group" or the "Group". The MD&A for the bank for the third quarter of 2012 is dated 6 November 2012.

We prepare our unaudited consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). The information in this MD&A is derived from our unaudited consolidated financial statements or from the information used to prepare them. The abbreviations "$m" and "$bn" represent millions and billions of Canadian dollars, respectively. All tabular amounts are in millions of dollars except where otherwise stated.

The bank uses both IFRS and certain non-IFRS financial measures to assess performance. Securities regulators require that companies caution readers that earnings and other measures that have been adjusted to a basis other than IFRS do not have a standardized meaning under IFRS and are therefore unlikely to be comparable to similar measures used by other companies. The following outlines various non-IFRS measures that are regularly monitored by management:

– *Return on average common equity* – Profit attributable to common shareholders on an annualized basis divided by average common equity, which is calculated using month-end balances of common equity for the period.

– *Post-tax return on average assets* – Profit attributable to common shareholders on an annualized basis divided by average assets, which is calculated using average daily balances for the period.

– *Post-tax return on average risk weighted assets* – Profit attributable to common shareholders on an annualized basis divided by the average monthly balances of risk weighted assets for the period. Risk weighted assets are calculated using guidelines issued by OSFI in accordance with the Basel II capital adequacy framework.

– *Cost efficiency ratio* – Calculated as total operating expenses for the period divided by net operating income before loan impairment charges and other credit risk provisions for the period.

– *Adjusted cost efficiency ratio* – Cost efficiency ratio adjusted to exclude gains and losses from financial instruments designated at fair value from net operating income before loan impairment charges.

– *Net interest income, net fee income and net trading income as a percentage of total operating income* – Net interest income, net fee income and net trading income for the period divided by net operating income before loan impairment charges and other credit risk provisions for the period.

– *Ratio of customer advances to customer accounts* – Loans and advances to customers divided by customer accounts, using period-end balances.

– *Average total shareholders' equity to average total assets* – average shareholders' equity is calculated using month-end balances of total shareholders' equity for the period and average total assets are calculated using average daily balances for the period.

– *Core tier 1 capital* – Tier 1 capital less non-controlling interests and preferred shares.

– *Core tier 1 capital ratio* – Core tier 1 capital as a percentage of risk-weighted assets.

Management's Discussion and Analysis (continued)

Overview

HSBC Bank Canada recorded profit of $181m for the third quarter of 2012, a decrease of $20m, or 10%, compared with $201m for the third quarter of 2011, and a decrease of $22m, or 11%, compared with the second quarter of 2012. Profit for the nine months ended 30 September 2012 was $604m, an increase of $35m, or 6%, compared with the nine months ended 30 September 2011. Profit attributable to common shareholders was $162m for the third quarter of 2012, a decrease of $20m, or 11%, compared with $182m for the third quarter of 2011, and a decrease of $24m, or 13%, compared with the second quarter of 2012. Profit attributable to common shareholders for the nine months ended 30 September 2012 was $550m, an increase of $35m, or 7%, compared with the nine months ended 30 September 2011.

The decrease in profit this quarter compared with the same quarter last year and the prior quarter is primarily due to continued pressure on net interest margin in a prolonged low interest rate environment. The decrease is partially offset by reduced operating expenses. The increase in profit for the nine months ended 30 September 2012 compared with the same period in 2011 was primarily due to revenue growth in the Global Banking and Markets business of 10% and Commercial Banking business of 5% as well as reduced operating expenses as a result of the wind-down of the bank's consumer finance business, the sale of the full service retail brokerage business and cost reduction efforts.

Commenting on the results, Lindsay Gordon, President and Chief Executive Officer of HSBC Bank Canada, said:

"The bank's results year-to-date continue to show solid progress. We have refocused the bank around our core businesses while improving the efficiency of our operations. Our initiatives have created a strong platform to deliver on our strategic objective of being the leading international bank in Canada and to ensure we continue to meet our customers' needs."

Analysis of Consolidated Financial Results for the Third Quarter 2012

Net interest income for the third quarter of 2012 was $357m, a decrease of $34m, or 9%, compared with the third quarter of 2011, and a decrease of $15m, or 4%, compared with the second quarter of 2012. Net interest income was $1,127m for the nine months ended 30 September 2012, a decrease of $36m, or 3%, compared with the nine months ended 30 September 2011. The decrease is due to continued pressure on net interest margin in a prolonged low interest rate environment.

Net fee income for the third quarter of 2012 was $157m, a decrease of $5m, or 3%, compared with the third quarter of 2011, and an increase of $10m, or 7%, compared with the second quarter of 2012. Net fee income was $447m for the nine months ended 30 September 2012, a decrease of $40m, or 8%, compared with the nine months ended 30 September 2011. The sale of the full service retail brokerage business resulted in reductions in fees from funds under management and brokerage commissions in 2012. Excluding 2011 fees from the full service retail brokerage business, net fee income increased by $19m and $31m compared with the third quarter and year-to-date period of 2011 respectively, resulting from increases in fees from credit facilities and the Immigrant Investor Program as a result of an increase in volume. The increase compared with the prior quarter is mainly due to higher fees from credit facilities and corporate finance.

Management's Discussion and Analysis (continued)

The components of net fee income are as follows:

	Quarter ended			Nine months ended	
	30 September 2012	30 September 2011	30 June 2012	**30 September 2012**	30 September 2011
	$m	$m	$m	**$m**	$m
Credit facilities	**62**	51	58	**176**	158
Funds under management	**32**	41	32	**93**	123
Account services	**22**	21	23	**66**	63
Brokerage commissions	**3**	13	5	**12**	52
Credit cards	**14**	13	13	**40**	37
Corporate finance	**12**	12	5	**25**	31
Insurance	**5**	6	5	**15**	17
Remittances	**8**	7	8	**23**	18
Trade finance import/export	**3**	3	2	**8**	9
Trustee fees	**1**	2	1	**3**	4
Immigrant Investor Program	**6**	7	8	**29**	20
Other	**7**	7	8	**21**	17
Fee income	**175**	183	168	**511**	549
Less: fee expense	**(18)**	(21)	(21)	**(64)**	(62)
Net fee income	**157**	162	147	**447**	487

Net trading income for the third quarter of 2012 was $48m, which marginally increased compared with both the third quarter of 2011 and the second quarter of 2012. Net trading income was $135m for the nine months ended 30 September 2012, an increase of $16m, or 13%, compared with the nine months ended 30 September 2011. The year-to-date increase is due to improved trading performance in rates products, reduced volume of derivatives used to manage foreign currency denominated deposits resulting in lower carrying costs and positive hedge ineffectiveness, partially offset by the adverse impact of narrowing credit spreads on the carrying value of our own debt instruments classified as trading.

Net gain/(loss) from financial instruments designated at fair value for the third quarter of 2012 was a net loss of $8m, compared with a gain of $22m in the third quarter of 2011, and a loss of $2m compared with the second quarter of 2012. Year-to-date, the net loss from financial instruments designated at fair value was $24m, compared with a net gain of $16m for the same period in 2011. The bank designates certain subordinated debentures and other liabilities to be recorded at fair value. Gains and losses are largely as a result of the widening or narrowing of credit spreads decreasing or increasing the fair value of these liabilities, respectively.

Gains less losses from financial investments for the third quarter of 2012 were $3m, a decrease of $17m and $25m respectively compared with the third quarter of 2011 and second quarter of 2012. Net gains from the sale of financial investments were $48m for the nine months ended 30 September 2012, an increase of $8m, or 20%, compared with the nine months ended 30 September 2011. The decrease in gains less losses from financial investments compared with the same quarter last year and compared with the previous quarter is due to reduced gains on the disposal of available-for-sale financial investments. On a year-to-date basis, gains less losses from financial investments increased due to higher gains on the disposal of available-for-sale financial investments.

Other operating income for the third quarter of 2012 was $15m, an increase of $3m, or 25%, compared with the third quarter of 2011, and a decrease of $7m, or 32%, compared with the second quarter of 2012. Other operating income was $50m for the nine months ended 30 September 2012, an increase of $15m, or 43%, compared with the nine months ended 30 September 2011. The second quarter of 2012 included a $6m recovery of investment property taxes. Included in other operating income for the nine months ended 30 September 2011 is a $17m charge resulting from the decline in fair value of investment property.

Gain on the sale of the full service retail brokerage business. The sale of the full service retail brokerage business closed on 1 January 2012 and resulted in a gain of $84m, net of assets written off and directly related costs.

Management's Discussion and Analysis (continued)

Loan impairment charges and other credit risk provisions for the third quarter of 2012 were $71m, an increase of $8m, or 13%, compared with the third quarter of 2011, and an increase of $12m, or 20%, compared with the second quarter of 2012. Loan impairment charges and other credit risk provisions were $178m for the nine months ended 30 September 2012, an increase of $35m, or 24%, compared with the nine months ended 30 September 2011. The increases are primarily due to higher specific provisions notably in the energy sector in the second quarter of 2012 and in the real estate sector in the third quarter of 2012 as well as higher collective provisions in the bank's consumer finance business.

Total operating expenses (excluding restructuring charges) for the third quarter of 2012 were $256m, a decrease of $62m, or 19%, compared with the third quarter of 2011, and a decrease of $20m, or 7%, compared with the second quarter of 2012. Total operating expenses were $838m for the nine months ended 30 September 2012, a decrease of $112m, or 12%, compared with the nine months ended 30 September 2011. The decrease in total operating expenses is due to cost reductions relating to the sale of the full service retail brokerage business ($79m) and wind-down of the bank's consumer finance business ($47m) in the nine months ended 30 September 2012. Additionally, as a result of cost management initiatives, employee compensation and benefits as well as activities and expenses related to the delivery of technology services to HSBC Group companies were reduced. The reduction is partially offset by a $47m recovery of fees from an HSBC affiliate in the nine months ended 30 September 2011.

Restructuring charges of $36m were recognized in the first quarter of 2012 mainly relating to the wind-down of the bank's consumer finance business.

Income tax expense. The effective tax rate in the third quarter of 2012 was 26.4%, compared with 26.6% in the third quarter of 2011 and 27.2% in the second quarter of 2012. The effective tax rate was 26.1% for the nine months ended 30 September 2012, compared with 26.2% for the nine months ended 30 September 2011. The decrease in the third quarter of 2012 compared with the prior quarter was due to additional income from international business activities that are subject to a lower tax rate.

Statement of Financial Position

Total assets at 30 September 2012 were $84.5bn, an increase of $4.4bn from $80.1bn at 31 December 2011, mainly due to increases of $2.4bn in financial investments, $2bn in trading assets, $2bn in loans and advances to customers and $1bn in acceptances offset by a decrease in loans and advances to banks of $2.9bn. The increase in trading assets is driven by higher activity and holdings in our rates and credit products at 30 September 2012. Loans and advances to banks decreased by $2.9bn and loans and advances to customers increased by $2bn mainly as a result of a decrease and an increase respectively in reverse repurchase agreements. Excluding the movement in reverse repurchase agreements, loans and advances to banks and loans and advances to customers decreased by $0.8bn and $0.5bn respectively.

Liquid assets which include high grade financial investments and reverse repurchase agreements, increased to $25.8bn at 30 September 2012, compared to $23.1bn at 31 December 2011.

Total customer accounts at 30 September 2012 were $47.7bn, an increase of $1.1bn from $46.6bn at 31 December 2011, mainly due to increases in repurchase agreements, commercial notice and current accounts, partially offset by decreases in commercial fixed date and personal notice deposits. Debt securities in issue at 30 September 2012 were $14.1bn from, an increase of $0.8bn from $13.3bn at 31 December 2011, primarily due to additional funding through the net issuance of $1.2bn in medium term notes, partially offset by reduced mortgage securitization funding of $0.3bn.

Total assets under administration

Total assets under administration were $19bn at 30 September 2012, a decrease of $8.4bn from $27.4bn at 31 December 2011, primarily due to sale of the bank's full service retail brokerage business. Excluding the full service retail brokerage business' funds under management, total assets under administration increased by $2.2bn compared with 31 December 2011.

Management's Discussion and Analysis (continued)

Analysis of Consolidated Financial Results for the Third Quarter 2012 by Customer Groups

Retail Banking and Wealth Management

	Quarter ended			Nine months ended	
	30 September 2012 $m	30 September 2011 $m	30 June 2012 $m	**30 September 2012 $m**	30 September 2011 $m
Net interest income	**85**	100	92	**282**	301
Net fee income	**42**	62	44	**128**	198
Net trading income	**3**	6	3	**9**	16
Other operating income	**3**	2	3	**8**	6
Gain on the sale of the full service retail brokerage business	**–**	–	–	**76**	–
Net operating income before loan impairment charges and other credit risk provisions	**133**	170	142	**503**	521
Loan impairment charges and other credit risk provisions	**(7)**	(7)	(7)	**(20)**	(13)
Net operating income	**126**	163	135	**483**	508
Total operating expenses (excluding restructuring charges)	**(112)**	(144)	(128)	**(367)**	(427)
Restructuring charges	**–**	–	–	**(2)**	–
Profit before income tax expense	**14**	19	7	**114**	81

Overview

Profit before income tax expense for the third quarter of 2012 was $14m, a decrease of $5m compared with third quarter of 2011, and an increase of $7m compared with the second quarter of 2012. On a year-to-date basis, profit before income tax expense was $114m, an increase of $33m compared with the same period in 2011. Profit before income tax expense for the nine months ended 30 September 2012 included a $76m gain on the sale of the full service retail brokerage business and restructuring charges of $2m. Profit before income tax expense for the comparative period last year included a $28m recovery of fees from an HSBC affiliate partially offset by a $7m write-off of internally developed software costs. Excluding the effect of these items, profit before income tax expense for the nine months ended 30 September 2012 was $40m, a decrease of $20m compared with the same period in 2011 mainly due to continued pressure on net interest margin in a prolonged low interest rate environment.

Financial performance

Net interest income for the third quarter of 2012 was $85m, a decrease of $15m, or 15%, compared with the third quarter of 2011, and a decrease of $7m, or 8%, compared with the second quarter of 2012. Net interest income was $282m for the nine months ended 30 September 2012, a decrease of $19m, or 6%, compared with the nine months ended 30 September 2011. The decrease is due to continued pressure on net interest margin in a prolonged low interest rate environment.

Net fee income for the third quarter of 2012 was $42m, a decrease of $20m, or 32%, compared with the third quarter of 2011, and slightly lower compared with the second quarter of 2012. Net fee income was $128m for the nine months ended 30 September 2012, a decrease of $70m compared with the nine months ended 30 September 2011. Net fee income decreased compared with the prior year due to the sale of the full service retail brokerage business. Excluding the reduction of fee income relating to the full service retail brokerage, net fee income remained unchanged compared with the third quarter of 2011 and increased by $3m compared with the nine months ended 30 September 2011, primarily due to higher net fee income from our Wealth Management business' Immigrant Investor Program as a result of an increase in volume and net fee income related to funds under management, partially offset by lower brokerage commission fees due to reduced trading activity.

Net trading income for the third quarter of 2012 was $3m, a decrease of $3m compared with the third quarter of 2011 and unchanged compared with the second quarter of 2012. Net trading income was $9m for the nine months ended 30 September 2012, a decrease of $7m compared with the nine months ended 30 September 2011 due to lower foreign exchange revenue.

Management's Discussion and Analysis (continued)

Loan impairment charges and other credit risk provisions for the third quarter of 2012 were $7m, unchanged compared with the third quarter of 2011 and compared with the second quarter of 2012. Loan impairment charges and other credit risk provisions were $20m for the nine months ended 30 September 2012, an increase of $7m compared with the nine months ended 30 September 2011. The year-to-date increase is due to higher specific provisions in 2012 and the effect of a $4m release of collective impairment provisions in the prior year.

Total operating expenses (excluding restructuring charges) for the third quarter of 2012 were $112m, a decrease of $32m, or 22%, compared with the third quarter of 2011, and a decrease of $16m, or 13%, compared with the second quarter of 2012. Total operating expenses (excluding restructuring charges) were $367m for the nine months ended 30 September 2012, a decrease of $60m, or 14%, compared with the nine months ended 30 September 2011. Total operating expenses for the nine months ended 30 September 2011 included a $28m recovery of fees from an HSBC affiliate while year-to-date 2012 expenses were lower due to the sale of the full service retail brokerage business and cost reduction efforts.

Commercial Banking

	Quarter ended			Nine months ended	
	30 September 2012	30 September 2011	30 June 2012	**30 September 2012**	30 September 2011
	$m	$m	$m	**$m**	$m
Net interest income	**175**	188	177	**532**	538
Net fee income	**78**	66	72	**221**	202
Net trading income	**9**	7	8	**25**	19
Other operating income/(expense) [1]	**3**	3	7	**15**	(5)
Net operating income before loan impairment charges and other credit risk provisions	**265**	264	264	**793**	754
Loan impairment charges and other credit risk provisions	**(36)**	(32)	(26)	**(73)**	(55)
Net operating income	**229**	232	238	**720**	699
Total operating expenses [1]	**(85)**	(98)	(89)	**(270)**	(282)
Operating profit	**144**	134	149	**450**	417
Share of profit in associates	**1**	2	–	**2**	4
Profit before income tax expense	**145**	136	149	**452**	421

1 *Comparative data has been reclassified to conform with current presentation. Refer to note 11 on the Financial Statements for additional information.*

Overview

Profit before income tax expense was $145m for the third quarter of 2012, an increase of $9m, compared with the third quarter of 2011, and a decrease of $4m compared with the second quarter of 2012. Profit before income tax expense was $452m for the nine months ended 30 September 2012, an increase of $31m compared with the nine months ended 30 September 2011. Profit before income tax expense increased compared with the same quarter last year due to reduced operating expenses as a result of cost reduction efforts, partially offset by higher specific impairment provisions. Profit before income tax expense decreased compared with the prior quarter due to higher specific impairment provisions, partially offset by reduced operating expenses as a result of cost reduction efforts. On a year-to-date basis, profit before income tax expense increased due to higher net fee income from credit facilities, higher net operating income due to a $17m charge resulting from the decline in fair value of investment property in 2011, reduced operating expenses as a result of cost reduction efforts, partially offset by higher specific impairment provisions.

Financial performance

Net interest income for the third quarter of 2012 was $175m, a decrease of $13m, or 7%, compared with the third quarter of 2011, and slightly lower compared with the second quarter of 2012. Net interest income was $532m for the nine months ended 30 September 2012, a decrease of $6m compared with the nine months ended 30 September 2011. The decreases are due to continued pressure on net interest margin in a prolonged low interest rate environment.

Management's Discussion and Analysis (continued)

Net fee income for the third quarter of 2012 was $78m, an increase of $12m, or 18%, compared with the third quarter of 2011, and an increase of $6m, or 8%, compared with the second quarter of 2012. Net fee income was $221m for the nine months ended 30 September 2012, an increase of $19m, or 9%, compared with the nine months ended 30 September 2011. The increases in net fee income are mainly due to higher fees from credit facilities driven by increased customer activity in banker's acceptances, standby credits and guarantee fees.

Net trading income for the third quarter of 2012 was $9m, slightly higher compared with the third quarter of 2011 and compared with the second quarter of 2012. Net trading income was $25m for the nine months ended 30 September 2012, an increase of $6m, or 32%, compared with the nine months ended 30 September 2011. The increase in net trading income is due to an increase in customer foreign exchange transactions.

Other operating income/(expense) for the third quarter of 2012 was $3m, unchanged compared with the third quarter of 2011, and a decrease of $4m compared with the second quarter of 2012. Other operating income was $15m for the nine months ended 30 September 2012, an increase of $20m compared with the nine months ended 30 September 2011. The second quarter of 2012 included a $6m recovery of investment property taxes. Included in other operating expense for the nine months ended 30 September 2011 is a $17m charge resulting from the decline in fair value of investment property.

Loan impairment charges and other credit risk provisions for the third quarter of 2012 were $36m, an increase of $4m, or 13%, compared with the third quarter of 2011, and an increase of $10m, or 38%, compared with the second quarter of 2012. Loan impairment charges and other credit risk provisions were $73m for the nine months ended 30 September 2012, an increase of $18m, or 33%, compared with the nine months ended 30 September 2011. The increase in loan impairment charges and other risk provisions are due to higher specific provisions notably in the energy sector in the second quarter of 2012 and in the real estate sector in the third quarter of 2012.

Total operating expenses for the third quarter of 2012 were $85m, a decrease of $13m, or 13%, compared with the third quarter of 2011, and a decrease of $4m, or 4%, compared with the second quarter of 2012. Total operating expenses were $270m for the nine months ended 30 September 2012, a decrease of $12m, or 4% compared with the nine months ended 30 September 2011. The decreases are as a result of cost reduction efforts partially offset by a $18m recovery of fees from an HSBC affiliate in the nine months ended 30 September 2011.

Global Banking and Markets

	Quarter ended			Nine months ended	
	30 September 2012 $m	30 September 2011 $m	30 June 2012 $m	**30 September 2012 $m**	30 September 2011 $m
Net interest income	**41**	38	40	**127**	127
Net fee income	**25**	23	19	**63**	56
Net trading income	**28**	29	28	**78**	73
Gains less losses from financial investments	**3**	17	28	**48**	37
Other operating income	**–**	–	2	**1**	2
Gain on the sale of the full service retail brokerage business	**–**	–	–	**8**	–
Net operating income	**97**	107	117	**325**	295
Total operating expenses	**(27)**	(32)	(33)	**(85)**	(88)
Profit before income tax expense	**70**	75	84	**240**	207

Overview

Profit before income tax expense was $70m for the third quarter of 2012, a decrease of $5m compared with the third quarter of 2011 and a decrease of $14m compared with the second quarter of 2012. Profit before income tax expense was $240m in the nine months ended 30 September 2012, an increase of $33m compared with the nine months ended 30 September 2011. The decrease in profit before income tax expense compared with the same quarter last year and compared with the prior quarter is due to reduced gains on the disposal of available-for-sale financial investments, partially offset by reduced operating expenses as a result of cost reduction efforts. The increase in profit before income tax expense compared with the nine months ending 30 September 2011 is due to higher gains on the disposal of available-for-sale financial investments, the gain on the sale of the full service brokerage business, improved net fee income driven by higher debt underwriting and derivative sales fees and higher net trading income driven by improved trading performance in rates products.

Management's Discussion and Analysis (continued)

Financial performance

Net interest income for the third quarter of 2012 was $41m, an increase of $3m, or 8%, compared with the third quarter of 2011, and an increase of $1m, or 3%, compared with the second quarter of 2012. Net interest income was $127m for the nine months ended 30 September 2012, unchanged compared with the nine months ended 30 September 2011.

Net fee income for the third quarter of 2012 was $25m, an increase of $2m, or 9%, compared with the third quarter of 2011 and an increase of $6m, or 32% compared with the second quarter of 2012. Net fee income was $63m, an increase of $7m, or 13%, compared with the nine months ended 30 September 2011. The increase was driven by higher debt underwriting and derivative sales fees.

Net trading income for the third quarter of 2012 was $28m, marginally lower compared with the third quarter of 2011 and unchanged compared with the second quarter of 2012. Net trading income was $78m for the nine months ended 30 September 2012, an increase of $5m, or 7%, compared with the nine months ended 30 September 2011. The year-to-date increase is due to improved trading performance in rates products, reduced volume of derivatives used to manage foreign currency denominated deposits resulting in lower carrying costs and positive hedge ineffectiveness, partially offset by the adverse impact of narrowing credit spreads on the carrying value of our own debt instruments classified as trading.

Gains less losses from financial investments for the third quarter of 2012 was $3m, a decrease of $14m and $25m respectively compared with the third quarter of 2011 and second quarter of 2012. Net gains from financial investments was $48m for the nine months ended 30 September 2012, an increase of $11m, or 30%, compared with the nine months ended 30 September 2011. The decrease in gains less losses from financial investments compared with the same quarter last year and compared with the previous quarter is due to reduced gains on the disposal of available-for-sale financial investments. On a year-to-date basis, gains less losses from financial investments increased due to higher gains on the disposal of available-for-sale financial investments.

Total operating expenses for the third quarter of 2012 were $27m, a decrease of $5m, or 16%, compared with the third quarter of 2011, and a decrease of $6m, or 18% compared with the second quarter of 2012. Total operating expenses were $85m for the nine months ended 30 September 2012, a decrease of $3m, or 3%, compared with the nine months ended 30 September 2011. The decrease is as a result of cost reduction efforts.

Consumer Finance

	Quarter ended			Nine months ended	
	30 September 2012 $m	30 September 2011 $m	30 June 2012 $m	**30 September 2012 $m**	30 September 2011 $m
Net interest income	**64**	69	72	**209**	208
Net fee income	**12**	11	12	**35**	31
Gains less losses from financial investments	**–**	3	–	**–**	3
Other operating income	**1**	3	–	**3**	5
Net operating income before loan impairment charges and other credit risk provisions	**77**	86	84	**247**	247
Loan impairment charges and other credit risk provisions	**(28)**	(24)	(26)	**(85)**	(75)
Net operating income	**49**	62	58	**162**	172
Total operating expenses (excluding restructuring charges)	**(21)**	(41)	(22)	**(81)**	(128)
Restructuring charges	**–**	–	–	**(34)**	–
Profit before income tax expense	**28**	21	36	**47**	44

Management's Discussion and Analysis (continued)

Overview

In March 2012, HSBC Financial Corporation Limited announced the wind-down of the consumer finance business in Canada and, except for existing commitments, ceased origination of loans. Accordingly, $34m in restructuring costs were incurred in the first quarter of 2012 relating to employee severance, pension curtailment and changes in benefits plans, uneconomic contracts, onerous leases and impairment of fixed assets including leasehold improvements.

Profit before income tax expense was $28m for the third quarter of 2012, an increase of $7m compared with the third quarter of 2011, and a decrease of $8m compared with the second quarter of 2012. Profit before income tax expense was $47m for the nine months ended 30 September 2012, an increase of $3m compared with the nine months ended 30 September 2011.

Profit before income tax expense increased compared with the same quarter last year mainly as a result of lower operating expenses driven by reduced staff, infrastructure charges and other overhead expenses, partially offset by lower net interest income on declining customer loan balances. Profit before income tax expense decreased compared with the prior quarter mainly due to lower net interest income on declining customer loan balances. Excluding the restructuring costs, profit before income tax expense was $81m for the nine months ended 30 September 2012, an increase of $37m compared with the same period last year. The increase is mainly as a result of lower operating expenses driven by reduced staff, infrastructure charges and other overhead expenses, which is partially offset by an increase in loan impairment charges.

Financial performance

Net interest income for the third quarter of 2012 was $64m, a decrease of $5m, or 7%, compared with the third quarter of 2011, and a decrease of $8m, or 11%, compared with the second quarter of 2012. The decrease in net interest income is mainly due to declining customer loan balances as a result of the wind-down of the business. Net interest income was $209m for the nine months ended 30 September 2012, little changed compared with the nine months ended 30 September 2011.

Net fee income for the third quarter of 2012 was $12m, slightly higher compared with the third quarter of 2011 and unchanged compared with the second quarter of 2012. Net fee income was $35m for the nine months ended 30 September 2012, an increase of $4m, or 13%, compared with the nine months ended 30 September 2011. The increase in net fee income is due to lower guarantee fees paid as a result of decreased medium term financing.

Loan impairment charges and other credit risk provisions for the third quarter of 2012 were $28m, an increase of $4m, or 17%, compared with the third quarter of 2011, and an increase of $2m, or 8%, compared with the second quarter of 2012. Loan impairment charges and other credit risk provisions were $85m for the nine months ended 30 September 2012, an increase of $10m, or 13%, compared with the nine months ended 30 September 2011. The increase compared with 2011 was due to an upward adjustment in collective provisions driven by heightened risk profiles expected as a result of the wind-down.

Total operating expenses (excluding restructuring charges) for the third quarter of 2012 were $21m, a decrease of $20m, or 49%, compared with the third quarter of 2011, and marginally lower compared with the second quarter of 2012. Total operating expenses (excluding restructuring charges) were $81m for the nine months ended 30 September 2012, a decrease of $47m, or 37%, compared with the nine months ended 30 September 2011. The decrease in total operating expenses is due to reduced staff, infrastructure charges and other overhead expenses as a result of the wind-down of the business.

Management's Discussion and Analysis (continued)

Other

	Quarter ended			Nine months ended	
	30 September 2012 $m	30 September 2011 $m	30 June 2012 $m	**30 September 2012 $m**	30 September 2011 $m
Net interest expense	**(8)**	(4)	(9)	**(23)**	(11)
Net trading income	**8**	4	8	**23**	11
Net gain/(loss) from financial instruments designated at fair value	**(8)**	22	(2)	**(24)**	16
Other operating income [(1)]	**8**	4	10	**23**	27
Net operating income/(expense)	**–**	26	7	**(1)**	43
Total operating expenses [(1)]	**(11)**	(3)	(4)	**(35)**	(25)
Profit/(loss) before income tax expense	**(11)**	23	3	**(36)**	18

1 *Comparative data has been reclassified to conform with current presentation. Refer to note 11 on the Financial Statements for additional information.*

Activities or transactions which do not relate directly to the above business segments are reported in Other. The main items reported under Other include gains and losses from the impact of changes in credit spreads on our own debt designated at fair value, revenue and expense related to information technology services provided to HSBC Group companies on an arm's length basis. Profit before income tax expense for the third quarter of 2012 was a loss of $11m, compared with a profit of $23m for the third quarter of 2011 and a profit of $3m in the second quarter of 2012. Profit before income tax expense was a loss of $36m for the nine months ended 30 September 2012, compared with a profit of $18m for the nine months ended 30 September 2011. The variances from comparative periods are primarily due to the impact of the items noted above.

Quarterly summary of Condensed Consolidated Statements of Income (unaudited)

The following table presents a summary of quarterly consolidated results for the last eight quarters:

	Quarter ended							
	30 September 2012 $m	30 June 2012 $m	31 March 2012 $m	31 December 2011 $m	30 September 2011 $m	30 June 2011 $m	31 March 2011 $m	31 December 2010 $m
Total revenue [(1)]	**572**	614	681	562	653	597	610	633
Profit for the period	**181**	203	220	135	201	208	160	118
Profit attributable to common shareholders	**162**	186	202	118	182	191	142	96
Profit attributable to preferred shareholders	**16**	15	15	15	16	15	15	15
Profit attributable to non-controlling interests	**3**	2	3	2	3	2	3	7
Basic earnings per common share	**0.33**	0.37	0.41	0.24	0.36	0.38	0.28	0.19

1 *Total revenue is reported as "net operating income before loan impairment charges and other credit risk provisions" on the consolidated income statement.*

The quarterly trends in revenue and expenses for 2011 and 2010 were disclosed on pages 24 and 25 of the Annual Report and Accounts for 2011.

Critical Accounting Policies and Impact of Estimates and Judgements

There have been no changes in the accounting policies that are deemed critical to the bank's results and financial position, in terms of the materiality of the items to which the policy is applied, or which involve a high degree of judgement including the use of assumptions and estimates. Critical accounting policies and impact of estimates and judgements are disclosed on pages 25 to 28 of the bank's Annual Report and Accounts for 2011.

Management's Discussion and Analysis (continued)

Off-Balance Sheet Arrangements

During the normal course of business, the bank makes extensive use of financial instruments including funding loans, purchasing securities and other investments, accepting deposits and entering into various derivative instrument contracts. These arrangements were described on page 29 of the Annual Report and Accounts for 2011. There have been no changes in the basis of calculating the fair value of financial instruments from 31 December 2011, and there have been no significant changes in the fair value of financial instruments that arose from factors other than normal economic, industry and market conditions. For financial instruments, including derivatives, valued using significant non-observable market inputs (level 3), assumptions and methodologies used in our models are continually reviewed and revised to arrive at better estimates of fair value.

Management's Responsibility for Financial Information

A rigorous and comprehensive financial governance framework is in place at the bank and its subsidiaries at both the management and board levels. Each year, the Annual Report and Accounts contains a statement signed by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) outlining management's responsibility for financial information contained in the report. Certifications, signed by the CEO and CFO, were filed with the Canadian Securities Administrators in March 2012 when the Annual Report and Accounts and other annual disclosure documents were filed. In those filings, the CEO and CFO certify, as required in Canada by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the appropriateness of the financial disclosures in the annual filings, the design and effectiveness of disclosure controls and procedures as well as the design and effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. The CEO and CFO have signed certifications relating to the appropriateness of the financial disclosures in interim filings with securities regulators, including this MD&A and the accompanying unaudited interim consolidated financial statements for the quarter ended 30 September 2012, and their responsibility for the design and maintenance of disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. There have been no changes in internal controls over financial reporting during the quarter ended 30 September 2012 that have materially affected or are reasonably likely to affect internal control over financial reporting.

As in prior quarters, the bank's Audit and Risk Committee reviewed this document, including the attached unaudited interim consolidated financial statements, and approved the document prior to its release.

A comprehensive discussion of the bank's businesses, strategies and objectives can be found in the Management's Discussion and Analysis in the Annual Report and Accounts for 2011, which can be accessed on the bank's web site at www.hsbc.ca. Readers are also encouraged to visit the site to view other quarterly financial information.

Related Party Transactions

Related party transaction policies and practices are unchanged from those outlined on page 31 of the Annual Report and Accounts for 2011. All transactions with related parties continue to be priced and accounted for as if they were provided in an open market on an arm's length basis or, where no market exists, at fair value. Transactions with related parties are detailed in note 12 to the accompanying consolidated financial statements.

Management's Discussion and Analysis (continued)

Outstanding Shares and Securities

	At 6 November 2012	
	Number	Amount ($m)
HSBC Canada Asset Trust Securities (HSBC HaTS™)[1]		
- Series 2015[2]	200,000	200
Preferred Shares – Class 1		
- Series C[3]	7,000,000	175
- Series D[4]	7,000,000	175
- Series E[5]	10,000,000	250
Preferred Shares – Class 2		
- Series B[6]	86,450,000	346
		946
Common shares		
HSBC Bank Canada	498,668,000	1,225

1 *Reported in non-controlling interests in the Consolidated Statement of Financial Position.*
2 *Cash distributions are non-cumulative and are payable semi-annually in an amount of $25.75 per unit.*
3 *Cash dividends are non-cumulative and are payable quarterly in an amount of $0.31875 per share.*
4 *Cash dividends are non-cumulative and are payable quarterly in an amount of $0.3125 per share.*
5 *Cash dividends are non-cumulative and are payable quarterly in an amount of $0.4125 per share.*
6 *Cash dividends are non-cumulative and are payable quarterly in an amount of $0.0775 per share.*

During the third quarter of 2012, the bank declared and paid $83m in dividends on HSBC Bank Canada common shares, an increase of $8m from the same period in 2011. The bank declared and paid $248m in dividends on common shares during the nine months ended 30 September 2012, an increase of $23m from the same period in 2011.

Regular quarterly dividends of 31.875 cents per share have been declared on HSBC Bank Canada Class 1 Preferred Shares – Series C, 31.25 cents per share on Class 1 Preferred Shares – Series D, 41.25 cents per share on Class 1 Preferred Shares – Series E and 7.75 cents per share on Class 2 Preferred Shares – Series B. Dividends will be paid on 31 December 2012, for shareholders of record on 14 December 2012.

Management's Discussion and Analysis (continued)

Risk Management

All of our business activities involve the measurement, evaluation, acceptance and management of some degree of risk, or combinations of risks. Risk management is the identification, analysis, evaluation and management of the factors that could adversely affect our resources, operations, reputation and financial results. The most important risk categories that we are exposed to include capital management, credit, liquidity and funding, market, structural and operational risk. A discussion of our risk management activities including both quantitative and qualitative factors is included on pages 32 to 54 of our 2011 Annual Report and Accounts. There have been no changes in our processes and no material changes in quantitative factors during the nine months ended 30 September 2012.

Capital Management

	30 September 2012 $m	31 December 2011 $m
Total tier 1 capital	**4,974**	4,731
Total tier 2	**859**	906
Total tier 1 and tier 2 capital available for regulatory purposes	**5,833**	5,637
Core tier 1 capital	**3,798**	3,555
Total risk-weighted assets	**36,818**	35,322
Actual regulatory capital ratios		
Tier 1 capital	**13.5 %**	13.4 %
Total capital	**15.8 %**	16.0 %
Core tier 1 capital	**10.3 %**	10.1 %
Assets to capital multiple	**13.6 x**	13.1 x
Minimum regulatory capital ratios required		
Tier 1 capital	**7.0 %**	7.0 %
Total capital	**10.0 %**	10.0 %
Maximum assets to capital multiple allowed	**20.0 x**	20.0 x

Credit Risk

Loan portfolio diversity

Concentration of credit risk may arise when the ability of a number of borrowers or counterparties to meet their contractual obligations are similarly affected by external factors. Examples of concentration risk would include geographic, industry and environmental factors. Therefore, diversification of credit risk is a key concept by which we are guided.

In assessing the risks of our credit portfolio, we aggregate all exposure types that result in credit risk.

The following is an analysis of the constituents of our portfolio:

	30 September 2012 $m	31 December 2011 $m
Loans included in financial statements, net of impairment allowances	**46,309**	44,357
Impairment allowances [1]	**480**	464
Less: Reverse repos and stock borrowing balances with customers	**(3,295)**	(1,050)
Customers' liability under acceptances	**5,040**	4,059
Trading acceptances	**2,372**	1,975
Guarantees and irrevocable letters of credit pledged as collateral security	**2,939**	2,641
Documentary credits and short-term trade related transaction	**760**	586
Total loans	**54,605**	53,032
Impaired loans and other impaired credit exposures [2]	**(766)**	(732)
Total performing loans	**53,839**	52,300

1 *Excludes $75m (31 December 2011: $73m) in collective impairment allowances relating to off-balance sheet credit instruments, which have been reclassified to 'Other liabilities'.*

2 *Includes $8m (31 December 2011: $54m) of impaired acceptances and letters of credit.*

Management's Discussion and Analysis (continued)

Performing loan portfolio

	30 September 2012		31 December 2011	
	$m	**%**	$m	%
Business and government loans [1]	**27,660**	**51.4**	25,384	48.5
Residential mortgages	**18,870**	**35.0**	18,951	36.2
Consumer finance loans	**2,091**	**3.9**	2,441	4.7
Other consumer loans	**5,218**	**9.7**	5,524	10.6
Total performing loans	**53,839**	**100.0**	52,300	100.0

1 *Includes $457m (31 December 2011: $454m) of construction and other loans secured by mortgages over residential property.*

Credit Quality of Financial Assets

The credit quality of financial assets remains broadly unchanged at 30 September 2012 compared with 31 December 2011. The increase in impaired financial assets is mainly due to a specific impairment of a customer in the energy sector in the second quarter of 2012 and a customer in the real estate sector in the third quarter of 2012.

Impaired loan portfolio

	30 September 2012	31 December 2011
	$m	$m
Business and government		
Real estate	**266**	256
Manufacturing	**39**	41
Trade	**71**	68
Services	**89**	95
Energy	**62**	22
Other	**45**	51
	572	533
Residential mortgages	**91**	103
Consumer finance loans	**66**	59
Other consumer loans	**37**	37
Total impaired loans, acceptances and letters of credit [1]	**766**	732
Specific allowances	**215**	208
Collective allowances	**265**	256
	480	464
Collective impairment allowances relating to off-balance sheet credit instruments (included in 'Other liabilities)	**75**	73
Total allowances for credit losses	**555**	537
Net impaired loans, acceptances and letters of credit	**211**	195
Allowance as percentage of total impaired loans, acceptances and letters of credit	**72.5 %**	73.4 %

1 *Includes $8m (31 December 2011: $54m) of impaired acceptances and letters of credit*

Management's Discussion and Analysis (continued)

Movement in impairment allowances

	Customers		
	Individually assessed $m	Collectively assessed [1] $m	Total $m
Quarter ended 30 September 2012			
At 1 July 2012	**189**	**336**	**525**
Amounts written off	**(8)**	**(30)**	**(38)**
Recoveries of loans and advances written off in previous periods	**–**	**6**	**6**
Charge to income	**39**	**32**	**71**
Other movements	**(5)**	**(4)**	**(9)**
At 30 September 2012	**215**	**340**	**555**
Quarter ended 30 September 2011			
At 1 July 2011	203	332	535
Amounts written off	(28)	(30)	(58)
Recoveries of loans and advances written off in previous periods	–	1	1
Charge to income	37	26	63
Other movements	(6)	1	(5)
At 30 September 2011	206	330	536
Quarter ended 30 June 2012			
At 1 April 2012	204	335	539
Amounts written off	(40)	(29)	(69)
Recoveries of loans and advances written off in previous periods	–	(1)	(1)
Charge to income	28	31	59
Other movements	(3)	–	(3)
At 30 June 2012	189	336	525
Nine months ended 30 September 2012			
At 1 January 2012	**208**	**329**	**537**
Amounts written off	**(60)**	**(89)**	**(149)**
Recoveries of loans and advances written off in previous periods	**–**	**5**	**5**
Charge to income	**80**	**98**	**178**
Other movements	**(13)**	**(3)**	**(16)**
At 30 September 2012	**215**	**340**	**555**
Nine months ended 30 September 2011			
At 1 January 2011	227	400	627
Amounts written off	(77)	(150)	(227)
Recoveries of loans and advances written off in previous periods	–	5	5
Charge to income [2]	71	75	146
Other movements	(15)	–	(15)
At 30 September 2011	206	330	536

1 *Includes $75m (30 September 2011: $71m; 30 June 2012: $79m) in collectively assessed impairment allowances relating to off-balance sheet credit instruments which have been reclassified to 'Other liabilities'.*

2 *In addition to the charge to income above, 'Loan impairment charges and other credit risk provisions' as presented in the consolidated income statement includes a $3m reversal of a previously recorded impairment loss relating to credit risk on an available-for-sale investment.*

Management's Discussion and Analysis (continued)

Exposures to Europe

The bank's exposure to Europe and in particular the eurozone remains well controlled within the bank's overall exposure to credit risk. Exposures to the eurozone increased by $71m compared to the position at 31 December 2011 due to $60m with core eurozone countries and $11m in exposures with peripheral countries. The increase in exposures with peripheral countries were due to increases of $12m in financial institution exposures with Italy and $10m in corporate exposures with Spain, partially offset by decreases of $9m and $2m in financial institution exposures with Portugal and Spain respectively. Exposures to other European countries outside of the eurozone increased by $82m mainly as a result of increases of $211m and $104m of financial institutions exposures with the United Kingdom and Belgium respectively, partially offset by a decrease of $184m in exposures with Switzerland.

Exposures to eurozone countries

	30 September 2012				31 December 2011			
	Corporate $m	**Financial institutions[1] $m**	**Sovereign $m**	**Total $m**	Corporate $m	Financial institutions[1] $m	Sovereign $m	Total $m
Core countries								
Germany	**–**	**213**	**–**	**213**	–	71	–	71
France	**–**	**217**	**178**	**395**	198	19	257	474
Netherlands	**–**	**–**	**–**	**–**	–	3	–	3
Total core countries	**–**	**430**	**178**	**608**	198	93	257	548
Peripheral countries								
Italy	**–**	**12**	**–**	**12**	–	–	–	–
Portugal	**–**	**1**	**–**	**1**	–	10	–	10
Spain	**10**	**1**	**–**	**11**	–	3	–	3
Total peripheral countries	**10**	**14**	**–**	**24**	–	13	–	13
Luxembourg	**–**	**2**	**–**	**2**	–	2	–	2
Total	**10**	**446**	**178**	**634**	198	108	257	563

1 *Exposures with financial institutions include exposures with other HSBC Group affiliates of $18m in both Germany and France (31 December 2011: $3m in Germany and $8m in France).*

Exposures to other European countries outside of the eurozone

	30 September 2012				31 December 2011			
	Corporate $m	**Financial institutions[1] $m**	**Sovereign $m**	**Total $m**	Corporate $m	Financial institutions[1] $m	Sovereign $m	Total $m
Belgium	**–**	**104**	**–**	**104**	–	–	–	–
Romania	**–**	**–**	**–**	**–**	2	–	–	2
Sweden	**–**	**36**	**–**	**36**	–	37	–	37
Switzerland	**–**	**5**	**467**	**472**	–	13	643	656
United Kingdom	**10**	**764**	**–**	**774**	4	553	52	609
Total	**10**	**909**	**467**	**1,386**	6	603	695	1,304

1 *Exposures with financial institutions include exposures with other HSBC Group affiliates of $479m in the United Kingdom (31 December 2011: $339m).*

Management's Discussion and Analysis (continued)

Credit Ratings

Standard & Poor's ("S&P") and DBRS® maintain credit ratings of our debt and securities. The ratings are made within the rating agencies' normal classification system for each type of debt or security. Our credit ratings influence our ability to secure cost-efficient wholesale funding.

Investment grade ratings are unchanged from 31 December 2011 and remain among the highest assigned to Canadian banks.

The bank's current ratings are as follows:

	S&P	DBRS
Short-term instruments	A-1+	R-1 (High)
Deposits and senior debt	AA-	AA
Subordinated debt	A	AA (Low)
Preferred shares	P-1 (Low) [1]	Pfd-2 (High)
HSBC Canada Asset Trust Securities (HSBC HaTS™)	P-1 (Low) [1]	A (Low)

1 *Based on S&P's Canadian national preferred share scale. Ratings are 'A-' on S&P's global preferred share scale.*

Value at Risk ("VaR")

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. Information in connection with VaR is included in our Annual Report and Accounts for 2011 on pages 52 and 53.

VaR disclosed in the table and graph below is the bank's total VaR for both trading and non-trading financial instruments and is within the bank's limits.

	Quarter ended	
	30 September 2012 $m	31 December 2011 $m
End of quarter	**10**	16
Average	**13**	22
Minimum	**10**	15
Maximum	**17**	29

Daily VaR

Third Quarter 2012 Consolidated Financial Statements and Notes (Unaudited)

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Financial Statements (Unaudited)

Consolidated income statement (Unaudited)

		Quarter ended			Nine months ended	
		30 September 2012	30 September 2011	30 June 2012	**30 September 2012**	30 September 2011
	Notes	**$m**	$m	$m	**$m**	$m
Interest income		**551**	579	565	**1,702**	1,781
Interest expense		**(194)**	(188)	(193)	**(575)**	(618)
Net interest income		**357**	391	372	**1,127**	1,163
Fee income		**175**	183	168	**511**	549
Fee expense		**(18)**	(21)	(21)	**(64)**	(62)
Net fee income		**157**	162	147	**447**	487
Trading income excluding net interest income		**38**	41	39	**109**	107
Net interest income on trading activities		**10**	5	8	**26**	12
Net trading income		**48**	46	47	**135**	119
Net (loss)/gain from financial instruments designated at fair value		**(8)**	22	(2)	**(24)**	16
Gains less losses from financial investments		**3**	20	28	**48**	40
Other operating income		**15**	12	22	**50**	35
Gain on sale of full service retail brokerage business	*13*	**–**	–	–	**84**	–
Net operating income before loan impairment charges and other credit risk provisions		**572**	653	614	**1,867**	1,860
Loan impairment charges and other credit risk provisions		**(71)**	(63)	(59)	**(178)**	(143)
Net operating income		**501**	590	555	**1,689**	1,717
Employee compensation and benefits	*3*	**(147)**	(196)	(163)	**(500)**	(612)
General and administrative expenses		**(96)**	(108)	(100)	**(300)**	(287)
Depreciation of property, plant and equipment		**(10)**	(10)	(8)	**(27)**	(29)
Amortization and impairment of intangible assets		**(3)**	(4)	(5)	**(11)**	(22)
Restructuring charges	*13*	**–**	–	–	**(36)**	–
Total operating expenses		**(256)**	(318)	(276)	**(874)**	(950)
Operating profit		**245**	272	279	**815**	767
Share of profit in associates		**1**	2	–	**2**	4
Profit before income tax expense		**246**	274	279	**817**	771
Income tax expense		**(65)**	(73)	(76)	**(213)**	(202)
Profit for the period		**181**	201	203	**604**	569
Profit attributable to common shareholder		**162**	182	186	**550**	515
Profit attributable to preferred shareholders		**16**	16	15	**46**	46
Profit attributable to shareholders		**178**	198	201	**596**	561
Profit attributable to non-controlling interests		**3**	3	2	**8**	8
Average number of common shares outstanding (000's)		**498,668**	498,668	498,668	**498,668**	498,668
Basic earnings per common share		**$ 0.33**	$ 0.36	$ 0.37	**$ 1.10**	$ 1.03

The accompanying notes on pages 29 to 40 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 17 to 21 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of comprehensive income (Unaudited)

	Quarter ended			Nine months ended	
	30 September 2012 $m	30 September 2011 $m	30 June 2012 $m	**30 September 2012 $m**	30 September 2011 $m
Profit for the period	**181**	201	203	**604**	569
Other comprehensive income					
Available-for-sale investments	**12**	39	21	**16**	51
– fair value gains	**19**	74	68	**76**	111
– fair value gains transferred to income statement on disposal	**(3)**	(20)	(28)	**(48)**	(40)
– income taxes	**(4)**	(15)	(19)	**(12)**	(20)
Cash flow hedges	**(30)**	191	27	**(109)**	207
– fair value (losses)/gains	**(40)**	264	23	**(167)**	283
– income taxes	**10**	(73)	4	**58**	(76)
Actuarial losses on defined benefit plans	**(23)**	(48)	(14)	**(64)**	(50)
– before income taxes	**(31)**	(64)	(20)	**(87)**	(61)
– income taxes	**8**	16	6	**23**	11
Other comprehensive (expense)/income for the period, net of tax	**(41)**	182	34	**(157)**	208
Total comprehensive income for the period	**140**	383	237	**447**	777
Total comprehensive income for the period attributable to:					
– shareholders	**137**	380	235	**439**	769
– non-controlling interests	**3**	3	2	**8**	8
	140	383	237	**447**	777

The accompanying notes on pages 29 to 40 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 17 to 21 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of financial position (Unaudited)

	Notes	**30 September 2012 $m**	30 September 2011 $m	31 December 2011 $m
ASSETS				
Cash and balances at central bank		**62**	62	77
Items in the course of collection from other banks		**123**	127	104
Trading assets	*4*	**6,610**	4,143	4,587
Derivatives	*5*	**2,042**	2,634	2,203
Loans and advances to banks		**1,627**	3,737	4,530
Loans and advances to customers		**46,309**	43,768	44,357
Financial investments	*6*	**21,571**	20,181	19,168
Other assets		**620**	707	559
Prepayments and accrued income		**262**	254	225
Customers' liability under acceptances		**5,040**	4,895	4,059
Property, plant and equipment		**130**	110	123
Goodwill and intangible assets		**75**	83	76
Total assets		**84,471**	80,701	80,068
LIABILITIES AND EQUITY				
Liabilities				
Deposits by banks		**2,359**	976	1,377
Customer accounts		**47,713**	45,500	46,614
Items in the course of transmission to other banks		**340**	210	288
Trading liabilities	*7*	**3,588**	2,633	2,996
Financial liabilities designated at fair value	*8*	**999**	993	1,006
Derivatives	*5*	**1,628**	2,256	1,746
Debt securities in issue		**14,063**	14,500	13,327
Other liabilities		**2,110**	2,333	2,260
Acceptances		**5,040**	4,895	4,059
Accruals and deferred income		**591**	588	566
Retirement benefit liabilities		**369**	326	300
Subordinated liabilities		**323**	328	326
Total liabilities		**79,123**	75,538	74,865
Equity				
Preferred shares		**946**	946	946
Common shares		**1,225**	1,225	1,225
Other reserves		**346**	455	439
Retained earnings		**2,601**	2,307	2,363
Total shareholders' equity		**5,118**	4,933	4,973
Non-controlling interests		**230**	230	230
Total equity		**5,348**	5,163	5,203
Total equity and liabilities		**84,471**	80,701	80,068

The accompanying notes on pages 29 to 40 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 17 to 21 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of cash flows (Unaudited)

		Quarter ended			Nine months ended	
		30 September 2012	30 September 2011	30 June 2012	**30 September 2012**	30 September 2011
	Notes	**$m**	$m	$m	**$m**	$m
Cash flows from operating activities						
Profit before tax		**246**	274	279	**817**	771
Adjustments for:						
– non-cash items included in profit before tax	9	**89**	89	85	**160**	223
– change in operating assets	9	**(1,006)**	417	(1,135)	**(4,377)**	125
– change in operating liabilities	9	**2,073**	(485)	760	**3,735**	1,045
– tax paid, net		**(4)**	(75)	(38)	**(348)**	(213)
Net cash (used in)/from operating activities		**1,398**	220	(49)	**(13)**	1,951
Cash flows from investing activities						
Purchase of financial investments		**(2,577)**	(6,310)	(4,602)	**(20,200)**	(16,051)
Proceeds from the sale and maturity of financial investments		**1,124**	4,096	4,868	**17,814**	12,070
Net cash flows from the sale of full service retail brokerage business		**–**	–	–	**(116)**	–
Purchase of property, plant and equipment		**(13)**	(8)	(19)	**(46)**	(27)
Purchase of intangible assets		**(3)**	–	(4)	**(9)**	–
Net cash from/(used in) investing activities		**(1,469)**	(2,222)	243	**(2,557)**	(4,008)
Cash flows from financing activities						
Dividends paid to shareholders		**(99)**	(91)	(97)	**(294)**	(271)
Distributions to non-controlling interests		**(3)**	(3)	(2)	**(8)**	(8)
Net cash used in financing activities		**(102)**	(94)	(99)	**(302)**	(279)
Net increase/(decrease) in cash and cash equivalents		**(173)**	(2,096)	95	**(2,872)**	(2,336)
Cash and cash equivalents at the beginning of the period		**2,000**	6,440	1,905	**4,699**	6,680
Cash and cash equivalents at the end of the period	9	**1,827**	4,344	2,000	**1,827**	4,344

The accompanying notes on pages 29 to 40 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 17 to 21 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of changes in equity for the nine months ended 30 September 2012 (Unaudited)

			Other reserves					
	Share capital $m	Retained earnings $m	Available-for-sale fair value reserve $m	Cash flow hedging reserve $m	Total Other Reserves $m	Total shareholders' equity $m	Non-controlling interests $m	Total equity $m
At 1 January [(1)]	2,171	2,363	138	301	439	4,973	230	5,203
Profit for the period	–	596	–	–	–	596	8	604
Other comprehensive income (net of tax)	–	(64)	16	(109)	(93)	(157)	–	(157)
Available-for-sale investments	–	–	16	–	16	16	–	16
Cash flow hedges	–	–	–	(109)	(109)	(109)	–	(109)
Actuarial losses on defined benefit plans	–	(64)	–	–	–	(64)	–	(64)
Total comprehensive income for the period	–	532	16	(109)	(93)	439	8	447
Dividends paid on common shares	–	(248)	–	–	–	(248)	–	(248)
Dividends paid on preferred shares	–	(46)	–	–	–	(46)	–	(46)
Distributions to unit holders	–	–	–	–	–	–	(8)	(8)
At 30 September	2,171	2,601	154	192	346	5,118	230	5,348

(1) Includes reclassification of $28m from "Cash flow hedging reserve" to "Available-for-sale fair value reserve" as at 31 December 2011.

The accompanying notes on pages 29 to 40 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 17 to 21 form an integral part of these financial statements.

Financial Statements (Unaudited) (continued)

Consolidated statement of changes in equity for the nine months ended 30 September 2011 (Unaudited)

			Other reserves					
	Share capital $m	Retained earnings $m	Available-for-sale fair value reserve $m	Cash flow hedging reserve $m	Total Other Reserves $m	Total shareholders' equity $m	Non-controlling interests $m	Total equity $m
At 1 January	2,171	2,058	81	116	197	4,426	230	4,656
Profit for the period	–	561	–	–	–	561	8	569
Other comprehensive income (net of tax)	–	(50)	51	207	258	208	–	208
Available-for-sale investments	–	–	51	–	51	51	–	51
Cash flow hedges	–	–	–	207	207	207	–	207
Actuarial losses on defined benefit plans	–	(50)	–	–	–	(50)	–	(50)
Total comprehensive income for the period	–	511	51	207	258	769	8	777
Dividends paid on common shares	–	(225)	–	–	–	(225)	–	(225)
Dividends paid on preferred shares	–	(46)	–	–	–	(46)	–	(46)
Distributions to unit holders	–	–	–	–	–	–	(8)	(8)
Other movements	–	9	–	–	–	9	–	9
At 30 September	2,171	2,307	132	323	455	4,933	230	5,163

The accompanying notes on pages 29 to 40 and the sections of "Risk Management" within the Management's Discussion and Analysis on pages 17 to 21 form an integral part of these financial statements.

Notes on the Financial Statements (Unaudited)

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

HSBC Bank Canada ("the bank", "we", "our") is an indirectly wholly owned subsidiary of HSBC Holdings plc ("the Parent", "HSBC"). In these consolidated financial statements, HSBC Group means the Parent and its subsidiary companies. These interim financial statements should be read in conjunction with the bank's 2011 annual consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards ('IFRS') and Section 308 (4) of the Bank Act.

The interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting'.

(b) Presentation of information

(i) The bank's consolidated financial statements are presented in Canadian dollars which is also its functional currency. The abbreviation "$m" represents millions of dollars. All tabular amounts are in millions of dollars except where otherwise noted. Certain prior period amounts have been reclassified to conform with the current period presentation.

(ii) The bank provides services or enters into transactions with HSBC Group regarding the sharing of costs of development by Canadian employees for certain technology platforms used by HSBC around the world. In previous periods, we have shown the salary and related direct expenses for these employees and the recovery of these expenditures on a gross basis as part of "General and administrative expenses" and "Other operating income" respectively. Effective for the first quarter of 2012, the bank has reported the impact of these transactions on a net basis by reclassifying the recovery of these expenditures from "Other operating income" to "General and administrative expenses". This change in presentation only affects transactions for which there is no arm's length mark-up on costs. Comparative data has been reclassified to conform with the current presentation. As a result, the quarterly impact of this change is a reduction in "Other operating income" and "General and administrative expenses" of $13m (30 September 2011: $21m; 30 June 2012: $15m). The year-to-date impact of this change is a reduction in "Other operating income" and "General and administrative expenses" of $42m (30 September 2011: $63m; 30 June 2012: $29m).

(iii) The bank records a collective allowance on all items with credit risk including off-balance sheet credit instruments such as guarantees and credit commitments. In previous periods, the collective allowance related to all credit instruments has been recorded as a deduction from "Loans and advances to customers". Effective for the first quarter of 2012, the bank has reclassified the portion of the collective allowance related to off-balance sheet credit instruments into "Other liabilities". Comparative data has been reclassified to conform with the current presentation. As a result, the impact of this change is an increase in "Loans and advances to customers" and "Other liabilities" of $75m (30 September 2011: $71m; 30 June 2012: $79m).

Neither of the above reclassifications have any impact on reported financial results or Shareholders' equity.

(c) Use of estimates and assumptions

The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of loans and advances, and the valuation of financial instruments as described on pages 66 to 78 of the bank's Annual Report and Accounts for 2011.

(d) Consolidation

The consolidated financial statements of the bank comprise the financial statements of the bank and its subsidiaries as at 30 September 2012. The method adopted by the bank to consolidate its subsidiaries is described on page 64 of the Annual Report and Accounts for 2011.

Notes on the Financial Statements (Unaudited) (continued)

(e) Future accounting developments

At 30 September 2012, a number of standards and amendments to standards have been issued by the IASB, which are not effective for these consolidated financial statements. The standards and amendments have been disclosed on pages 65 to 66 of the bank's Annual Report and Accounts for 2011.

The bank previously disclosed a future accounting change relating to IAS 19 'Employee Benefits' ('IAS 19 revised'), which is effective for annual periods beginning on or after 1 January 2013. The bank will be able to quantify the financial impact of the adoption of IAS 19 in early 2013 when discount rates effective for fiscal 2013 will be finalized. However, based on current rates, the adoption of IAS 19 is unlikely to have a material impact on the bank's financial statements.

In 2012, the IASB reconsidered the requirements for classification and measurement relating to IFRS 9 to address implementation issues. An exposure draft of revised proposals is expected in early 2013. Presently, the Office of the Superintendent of Financial Institutions Canada ("OSFI") does not allow early adoption. Therefore, the implementation and effects of IFRS 9 remains uncertain.

2 Summary of significant and critical accounting policies

There have been no significant changes to the accounting policies of the bank as disclosed on pages 66 to 78 of the Annual Report and Accounts for 2011.

3 Employee compensation and benefits

Included within 'Employee compensation and benefits' are components of net periodic benefit cost related to the bank's pension plans and other post-employment benefits, as follows:

	Quarter ended			Nine months ended	
	30 September 2012	30 September 2011	30 June 2012	**30 September 2012**	30 September 2011
	$m	$m	$m	**$m**	$m
Pension plans – defined benefit	**4**	5	1	**7**	11
Pension plans – defined contribution	**6**	6	6	**23**	26
Healthcare and other post-employment benefit plans	**2**	4	3	**7**	9
	12	15	10	**37**	46

Actuarial valuations for the bank's pension plans and non-pension arrangements are prepared annually. The most recent actuarial valuations of the defined benefit pension plans for funding purposes were conducted as at 31 December 2011.

Notes on the Financial Statements (Unaudited) (continued)

4 Trading assets

	At 30 September 2012 $m	At 30 September 2011 $m	At 31 December 2011 $m
Trading assets:			
– which may be repledged or resold by counterparties	**2,029**	2,547	704
– not subject to repledge or resale by counterparties	**4,581**	1,596	3,883
	6,610	4,143	4,587

	At 30 September 2012 $m	At 30 September 2011 $m	At 31 December 2011 $m
Debt securities	**2,880**	1,962	2,034
Bankers acceptances	**2,372**	774	1,975
Customer trading assets	**779**	905	304
Treasury and other eligible bills	**553**	471	245
Equity securities	**26**	31	29
	6,610	4,143	4,587

Included within the above figures for the bank are debt securities issued by banks and other financial institutions of $74m (30 June 2012: $79m; 31 December 2011: $84m), none of which are guaranteed by various governments.

5 Derivatives

For a detailed description of the type and use of derivatives by the bank, please refer to the bank's accounting policies disclosed on pages 66 to 78, and Note 11 on page 95 to 101 of the bank's Annual Report and Accounts for 2011.

Fair values of derivatives by product contract type held:

	At 30 September 2012					
	Assets			**Liabilities**		
	Trading $m	**Hedging $m**	**Total $m**	**Trading $m**	**Hedging $m**	**Total $m**
Foreign exchange	**950**	**89**	**1,039**	**833**	**6**	**839**
Interest rate	**595**	**343**	**938**	**541**	**183**	**724**
Commodity	**65**	**–**	**65**	**65**	**–**	**65**
Gross total fair values	**1,610**	**432**	**2,042**	**1,439**	**189**	**1,628**

	At 30 September 2011					
	Assets			Liabilities		
	Trading $m	Hedging $m	Total $m	Trading $m	Hedging $m	Total $m
Foreign exchange	1,520	38	1,558	1,490	3	1,493
Interest rate	509	567	1,076	459	304	763
Gross total fair values	2,029	605	2,634	1,949	307	2,256

	At 31 December 2011					
	Assets			Liabilities		
	Trading $m	Hedging $m	Total $m	Trading $m	Hedging $m	Total $m
Foreign exchange	1,034	87	1,121	999	9	1,008
Interest rate	548	499	1,047	479	224	703
Commodity	35	–	35	35	–	35
Gross total fair values	1,617	586	2,203	1,513	233	1,746

Notes on the Financial Statements (Unaudited) (continued)

Trading derivatives

Notional contract amounts of derivatives held for trading purposes by product type

	At 30 September 2012	At 30 September 2011	At 31 December 2011
	$m	$m	$m
Foreign exchange	**63,380**	62,594	57,374
Interest rate	**37,142**	37,207	34,992
Commodity	**462**	–	130
Total derivatives	**100,984**	99,801	92,496

The notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the reporting date; they do not represent amounts at risk.

Hedging instruments

Notional contract amounts of derivatives held for hedging purposes by product type

	At 30 September 2012		At 30 September 2011		At 31 December 2011	
	Cash flow hedge	**Fair value hedge**	Cash flow hedge	Fair value hedge	Cash flow hedge	Fair value hedge
	$m	**$m**	$m	$m	$m	$m
Interest rate	**22,738**	**4,260**	24,942	5,626	24,740	4,494
Foreign exchange	**2,107**	**–**	540	–	1,389	–
Total derivatives	**24,845**	**4,260**	25,482	5,626	26,129	4,494

Fair value of derivatives designated as fair value hedges

	At 30 September 2012		At 30 September 2011		At 31 December 2011	
	Assets $m	**Liabilities $m**	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Interest rate	**7**	**101**	1	191	2	127

Gains or losses arising from the change in fair value of fair value hedges

	Quarter ended			Nine months ended	
	30 September 2012	30 September 2011	30 June 2012	30 September 2012	30 September 2011
	$m	$m	$m	$m	$m
Gains/(losses)					
On hedging instruments	**(13)**	(164)	(53)	**(23)**	(192)
On hedged items attributable to the hedged risk	**14**	166	54	**25**	195

The gains and losses on ineffective portions of fair value hedges are recognized immediately in "Net trading income".

Fair value of derivatives designated as cash flow hedges

	At 30 September 2012		At 30 September 2011		At 31 December 2011	
	Assets $m	**Liabilities $m**	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Foreign exchange	**89**	**6**	38	3	87	9
Interest rate	**336**	**82**	567	113	497	97

Notes on the Financial Statements (Unaudited) (continued)

6 Financial investments

Financial investments consist of the following:

	At 30 September 2012 $m	At 30 September 2011 $m	At 31 December 2011 $m
Financial investments			
Not subject to repledge or resale by counterparties	**21,571**	20,181	19,168
Available-for-sale			
Debt securities and other	**18,634**	17,903	17,452
Treasury bills and other eligible bills	**2,937**	2,278	1,716
	21,571	20,181	19,168

Included within the above figures for the bank are debt securities issued by banks and other financial institutions of $2,175m (30 June 2012: $2,012m; 31 December 2011: $1,541m) of which $479m (30 June 2012: $453m; 31 December 2011: $270m) are guaranteed by various governments.

Included in the available-for-sale debt securities are debt securities issued by governments of $16,409m (30 June 2012: $15,462m; 31 December 2011: $15,590m).

7 Trading liabilities

	At 30 September 2012 $m	At 30 September 2011 $m	At 31 December 2011 $m
Other liabilities – net short positions	**2,213**	1,142	1,305
Customer trading liabilities	**1,299**	1,349	1,516
Other debt securities in issue	**76**	142	175
	3,588	2,633	2,996

8 Financial liabilities designated at fair value

	At 30 September 2012 $m	At 30 September 2011 $m	At 31 December 2011 $m
Debt securities in issue	**563**	568	580
Subordinated debentures	**436**	425	426
	999	993	1,006

The carrying amount at 30 September 2012 of financial liabilities designated at fair value was $39m higher (30 September 2011: $36m higher; 31 December 2011: $35m higher) than the contractual amount at maturity. At 30 September 2012, the cumulative amount of change in fair value attributable to changes in credit risk was a loss of $3m (30 September 2011: $25m gain; 31 December 2011: $22m gain).

The holders of the debt securities in issue have exercised their option to redeem the securities at their contractual amount of $560m on 26 November 2012.

Notes on the Financial Statements (Unaudited) (continued)

9 Notes on the statement of cash flows

	Quarter ended			Nine months ended	
	30 September 2012	30 September 2011	30 June 2012	**30 September 2012**	30 September 2011
	$m	$m	$m	**$m**	$m
Non-cash items included in profit before tax					
Gain on sale of full service retail brokerage business	**–**	–	–	**(84)**	–
Depreciation and amortization	**14**	14	15	**44**	51
Share based payment expense	**3**	8	8	**15**	19
Loan impairment charges and other credit risk	**71**	63	59	**178**	143
Charge for defined benefit pension plans	**1**	4	3	**7**	10
	89	89	85	**160**	223
Change in operating assets					
Change in prepayment and accrued income	**(22)**	(48)	(3)	**(42)**	(68)
Change in net trading securities and net derivatives	**(197)**	(1,327)	(232)	**(1,144)**	(494)
Change in loans and advances to customers	**(254)**	1,788	(790)	**(2,130)**	1,307
Change in other assets	**(533)**	4	(110)	**(1,061)**	(620)
	(1,006)	417	(1,135)	**(4,377)**	125
Change in operating liabilities					
Change in accruals and deferred income	**86**	71	(35)	**30**	5
Change in deposits by banks	**612**	(80)	308	**982**	(23)
Change in customer accounts	**616**	(22)	60	**1,099**	40
Change in debt securities in issue	**102**	(780)	(45)	**736**	(316)
Change in financial liabilities designated at fair value	**(12)**	(8)	9	**(7)**	10
Change in other liabilities	**669**	334	463	**895**	1,329
	2,073	(485)	760	**3,735**	1,045
Cash and cash equivalents					
Cash and balances at central bank	**62**	62	70	**62**	62
Items in the course of transmission to other banks, net	**(217)**	(83)	(232)	**(217)**	(83)
Loans and advances to banks of one month or less	**1,627**	3,737	1,919	**1,627**	3,737
T-Bills and certificates of deposits – three months or less	**355**	628	243	**355**	628
	1,827	4,344	2,000	**1,827**	4,344
Interest					
Interest paid	**133**	142	239	519	597
Interest received	**524**	523	569	1,675	1,710

Notes on the Financial Statements (Unaudited) (continued)

10 Contingent liabilities, contractual commitments and guarantees

	At 30 September 2012 $m	At 30 September 2011 $m	At 31 December 2011 $m
Guarantees and other contingent liabilities			
Guarantees and irrevocable letters of credit pledged as collateral security	**2,939**	2,624	2,641
Commitments			
Undrawn formal standby facilities, credit lines and other commitments to lend [1]	**35,421**	35,603	37,417
Documentary credits and short-term trade-related transactions	**760**	705	586
	36,181	36,308	38,003

(1) Based on original contractual maturity.

Litigation

We are subject to a number of legal proceedings arising in the normal course of our business. We do not expect the outcome of any of these proceedings, in aggregate, to have a material effect on our consolidated financial position or our results of operations.

11 Segment analysis

We manage and report our operations according to our main customer groups. Information on each business line is included in the Annual Report and Accounts 2011, on pages 7 to 10. Various estimate and allocation methodologies are used in the preparation of the customer groups' financial information. We allocate expenses directly related to earning revenues to the groups that earned the related revenue. Expenses not directly related to earning revenue, such as overhead expenses, are allocated to customer groups using appropriate allocation formulas. Customer group net interest income reflects internal funding charges and credits on the customer groups' assets, liabilities and capital, at market rates, taking into account relevant terms and currency considerations. The offset of the net impact of these charges and credits is reflected in the Global Banking and Markets segment.

A brief description of each customer group is as follows:

Retail Banking and Wealth Management

Retail Banking and Wealth Management offers its products and services to customers based on their individual needs. Customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (investment products, estate and financial planning services).

Commercial Banking

Commercial Banking business is segmented into Corporate and Business Banking to serve both Corporate and Mid-Market companies, as well as small to medium-sized enterprises respectively. Client offerings include financing, payment and cash management, international trade finance, treasury capital markets and advisory, commercial cards and online banking channels.

Global Banking and Markets

Global Banking and Markets consists of two principal business lines; Global Banking and Global Markets.

Global Banking is responsible for the overall management of relationships with major corporate and institutional clients. This involves working closely with a variety of product specialists to deliver a comprehensive range of services such as treasury and capital markets, transaction banking, strategic advisory and investment management and the origination and ongoing management of the credit and lending product.

Notes on the Financial Statements (Unaudited) (continued)

Global Markets is responsible for the management of relationships with clients that include international and local corporations, institutional investors, financial institutions and other market participants. We specialize in foreign exchange, credits and rates, structured derivatives and equities and debt capital markets.

Consumer Finance

Consumer Finance, through the bank's wholly-owned subsidiary, HSBC Financial Corporation Limited, provided consumer finance products and services, including real estate secured loans, personal loans, specialty insurance products and credit cards, including private-label credit cards to retail merchants.

On 21 March 2012, HSBC Financial Corporation Limited announced the wind-down of the Consumer Finance business in Canada and, except for existing commitments, ceased origination of loans. Details of restructuring charges incurred as a result of this decision are disclosed in Note 13.

Other

Activities or transactions which do not relate directly to the business segments are reported in 'Other'. The main items reported under 'Other' include financial instruments classified as trading under the fair value option and revenue and expense recoveries related to information technology activities performed on behalf of HSBC Group companies.

Effective for the third quarter of 2012, income and expenses of a call center which exclusively services the global Commercial Banking business, was reclassified from the 'Other' segment to the 'Commercial Banking' segment. This was to conform with similar policies adopted by other HSBC Group entities, enables a more efficient allocation and recovery of these costs and provides an accurate reflection of the bank's business operations. This has no impact on the overall financial statements, but only impacts on the segment analysis. Comparative data has been reclassified to conform with the current presentation. The effect is to increase both fee income and expenses for the current quarter by $3m and $11m year-to- date. The impact for 2011 was to increase both quarterly income and expense by $3m and year-to-date income and expense by $10m and $11m respectively.

Except as noted above the accounting policies of the segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed on pages 66 to 78 of the bank's Annual Report and Accounts for 2011.

Figures in $m

	Quarter ended			Nine months ended	
	30 September 2012	30 September 2011	30 June 2012	**30 September 2012**	30 September 2011
Retail Banking and Wealth Management					
Net interest income	**85**	100	92	**282**	301
Net fee income	**42**	62	44	**128**	198
Net trading income	**3**	6	3	**9**	16
Other operating income	**3**	2	3	**8**	6
Gain on sale of full service retail brokerage business	**–**	–	–	**76**	–
Net operating income before loan impairment charges and other credit risk provisions	**133**	170	142	**503**	521
Loan impairment charges and other credit risk provisions	**(7)**	(7)	(7)	**(20)**	(13)
Net operating income	**126**	163	135	**483**	508
Total operating expenses (excluding restructuring charges)	**(112)**	(144)	(128)	**(367)**	(427)
Restructuring charges	**–**	–	–	**(2)**	–
Profit before income tax expense	**14**	19	7	**114**	81

Notes on the Financial Statements (Unaudited) (continued)

Figures in $m

	Quarter ended			Nine months ended	
	30 September 2012	30 September 2011	30 June 2012	**30 September 2012**	30 September 2011
Commercial Banking					
Net interest income	**175**	188	177	**532**	538
Net fee income	**78**	66	72	**221**	202
Net trading income	**9**	7	8	**25**	19
Other operating income/(expense)	**3**	3	7	**15**	(5)
Net operating income before loan impairment charges and other credit risk provisions	**265**	264	264	**793**	754
Loan impairment charges and other credit risk provisions	**(36)**	(32)	(26)	**(73)**	(55)
Net operating income	**229**	232	238	**720**	699
Total operating expenses	**(85)**	(98)	(89)	**(270)**	(282)
Operating profit	**144**	134	149	**450**	417
Share of profit in associates	**1**	2	–	**2**	4
Profit before income tax expense	**145**	136	149	**452**	421
Global Banking and Markets					
Net interest income	**41**	38	40	**127**	127
Net fee income	**25**	23	19	**63**	56
Net trading income	**28**	29	28	**78**	73
Gains less losses from financial investments	**3**	17	28	**48**	37
Other operating income	**–**	–	2	**1**	2
Gain on sale of full service retail brokerage business	**–**	–	–	**8**	–
Net operating income	**97**	107	117	**325**	295
Total operating expenses	**(27)**	(32)	(33)	**(85)**	(88)
Profit before income tax expense	**70**	75	84	**240**	207
Consumer Finance					
Net interest income	**64**	69	72	**209**	208
Net fee income	**12**	11	12	**35**	31
Gains less losses from financial investments	**–**	3	–	**–**	3
Other operating income	**1**	3	–	**3**	5
Net operating income before loan impairment charges and other credit risk provisions	**77**	86	84	**247**	247
Loan impairment charges and other credit risk provisions	**(28)**	(24)	(26)	**(85)**	(75)
Net operating income	**49**	62	58	**162**	172
Total operating expenses (excluding restructuring charges)	**(21)**	(41)	(22)	**(81)**	(128)
Restructuring charges	**–**	–	–	**(34)**	–
Profit before income tax expense	**28**	21	36	**47**	44
Other					
Net interest expense	**(8)**	(4)	(9)	**(23)**	(11)
Net trading income	**8**	4	8	**23**	11
Net gain/(loss) from financial instruments designated at fair value	**(8)**	22	(2)	**(24)**	16
Other operating income	**8**	4	10	**23**	27
Net operating income/(expense)	**–**	26	7	**(1)**	43
Total operating expenses	**(11)**	(3)	(4)	**(35)**	(25)
Profit/(loss) before income tax expense	**(11)**	23	3	**(36)**	18

Notes on the Financial Statements (Unaudited) (continued)

Other information about the profit/ (loss) for the quarter

Figures in $m

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Consumer Finance	Other	Total
Quarter ended 30 September 2012						
Net operating income:	**126**	**229**	**97**	**49**	**–**	**501**
External	**170**	**217**	**65**	**49**	**–**	**501**
Inter-segment	**(44)**	**12**	**32**	**–**	**–**	**–**
Quarter ended 30 September 2011						
Net operating income:	163	232	107	62	26	590
External	186	198	115	62	29	590
Inter-segment	(23)	34	(8)	–	(3)	–
Quarter ended 30 June 2012						
Net operating income:	135	238	117	58	7	555
External	180	223	83	58	11	555
Inter-segment	(45)	15	34	–	(4)	–
Nine months ended 30 September 2012						
Net operating income:	**483**	**720**	**325**	**162**	**(1)**	**1,689**
External	**604**	**681**	**243**	**162**	**(1)**	**1,689**
Inter-segment	**(121)**	**39**	**82**	**–**	**–**	**–**
Nine months ended 30 September 2011						
Net operating income:	508	699	295	172	43	1,717
External	568	642	282	172	53	1,717
Inter-segment	(60)	57	13	–	(10)	–

Statement of financial position information

	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Consumer Finance	Other	Total
At 30 September 2012						
Loans and advances to customers (net)	**24,995**	**16,484**	**4,400**	**2,056**	**(1,626)**	**46,309**
Customers' liability under acceptances	**–**	**4,094**	**946**	**–**	**–**	**5,040**
Total assets	**25,415**	**20,431**	**38,462**	**2,198**	**(2,035)**	**84,471**
Customer accounts	**20,008**	**19,708**	**7,606**	**1**	**390**	**47,713**
Acceptances	**–**	**4,094**	**946**	**–**	**–**	**5,040**
Total liabilities	**23,272**	**24,215**	**31,116**	**1,776**	**(1,256)**	**79,123**
At 30 September 2011						
Loans and advances to customers (net)	24,510	14,600	3,513	2,386	(1,241)	43,768
Customers' liability under acceptances	–	4,043	852	–	–	4,895
Total assets	25,412	19,372	34,750	2,530	(1,363)	80,701
Customer accounts	25,270	17,390	2,874	1,242	(1,276)	45,500
Acceptances	–	4,043	852	–	–	4,895
Total liabilities	35,325	22,187	16,729	2,162	(865)	75,538
At 31 December 2011						
Loans and advances to customers (net)	24,580	15,355	3,931	2,412	(1,921)	44,357
Customers' liability under acceptances	–	3,298	761	–	–	4,059
Total assets	25,565	19,457	34,549	2,549	(2,052)	80,068
Customer accounts	25,210	18,935	2,505	1	(37)	46,614
Acceptances	–	3,298	761	–	–	4,059
Total liabilities	28,270	23,173	22,807	2,159	(1,544)	74,865

Notes on the Financial Statements (Unaudited) (continued)

12 Related party transactions

The amounts detailed below include transactions between the bank and HSBC Holdings including fellow subsidiaries of HSBC Holdings. The transactions below were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

Transactions between the bank and HSBC Holdings including fellow subsidiaries of HSBC Holdings

	Quarter ended			Nine months ended	
	30 September 2012 $m	30 September 2011 $m	30 June 2012 $m	**30 September 2012 $m**	30 September 2011 $m
Income Statement					
Interest income	**–**	5	1	3	12
Interest expense	**–**	–	(1)	(2)	(2)
Fee income	**4**	6	4	12	14
Fee expense	**(1)**	(1)	(1)	(2)	(4)
Other operating income	**9**	7	12	33	39
General and administrative expenses	**(26)**	(24)	(30)	(79)	(70)

Balances due to/from the bank and HSBC Group affiliates in Europe at 30 September 2012 are included in "Exposures to Europe" within the Management's Discussion and Analysis on page 20. Other balances have not changed materially compared with those shown in the bank's 2011 annual consolidated financial statements.

13 Restructuring charges

In March 2012, HSBC Finance Corporation Limited announced the wind-down of the Consumer Finance business in Canada and, except for existing commitments, ceased origination of loans. Accordingly restructuring costs were incurred relating to employee severance, pension curtailment and changes in benefits plans, uneconomic contracts, onerous leases and impairment of assets. In addition, certain restructuring costs were incurred relating to the sale of the full service retail brokerage business on 1 January 2012. A gain of $84m, net of assets written off and directly related costs was recorded in the first quarter of 2012. Of this gain, $76m and $8m was attributed to the Retail Banking and Wealth Management and Global Banking and Markets businesses respectively, as disclosed in Note 11.

An analysis of the restructuring charges by expense type is set out below:

Consumer Finance

	Nine months ended **30 September 2012 $m**
Employee severance and related compensation and benefits charges, net	**17**
General and administrative expenses, including onerous lease provisions	**14**
Impairment of property plant and equipment	**3**
	34

Full service retail brokerage business

	Nine months ended **30 September 2012 $m**
Employee severance and related compensation and benefits charges	**2**
General and administrative expenses, including onerous lease provisions	**–**
Impairment of property plant and equipment	**–**
	2
Total	**36**

Notes on the Financial Statements (Unaudited) (continued)

14 Events after the reporting period

There have been no material events after the reporting period which would require disclosure or adjustment to the 30 September 2012 financial statements.

These consolidated financial statements were approved by the Audit and Risk Committee on 6 November 2012 and authorized for issue.